# Investor guide

## The main investment instruments

### MAIN FINANCIAL SERVICES RELATED TO INVESTMENT PRODUCTS

The three main financial services must be distinguished:

1. Advice:

This consists of personalised and specific recommendations based on the personal circumstances of each customer, such as his or her financial situation, risk profile and knowledge or experience in financial products and his or her investment aims. The final decision to invest in a particular financial product will be made by each customer.

At Andbank this will always be carried out by signing an advice contract and ensuring that said recommendations are suitable to the customer's investor profile.

2. Discretionary portfolio management:

Discretionary and individualised portfolio management is an investment service through which customers authorise the Institution to manage their wealth in their name, by signing a contract.

Andbank promises to advise and manage the assets entrusted to it by the customer in a professional, faithful and responsible way, with the aim of maximising their financial and fiscal profitability, based on a predetermined suitability and risk profile.

3. Marketing:

When products are offered based on their characteristics, without analysing the personal circumstances of the customers, considering the appropriateness criterion as established in applicable investor protection law (MiFID).

### GENERAL WARNINGS ABOUT THE MAIN INVESTMENT INSTRUMENTS

1 BASIC PRINCIPLES

UNDERSTANDING YOUR INVESTOR PROFILE AND DEFINING YOUR INVESTMENT HORIZON
A good understanding of your investor profile is an essential condition for determining the most appropriate type of investment for your sensitivity to risk and your performance objectives. Every type of investment is characterised by a risk and an expected return. The greater the risk, the bigger the expected return.

The investment horizon is also a determining factor for the type of investment you choose. A short-term investment, i.e. for one or two years, should not be an investment in a volatile product as you may find you have to sell your product at a time when the markets are not particularly favourable and have loss of capital.

DIVERSIFY YOUR INVESTMENTS

Investing in too few positions is undesirable due to the specific risk related to concentrating on a single security. In order to reduce this risk, investments should be diversified: in other words, it is preferable to invest in several asset classes (bonds, equities and alternative instruments).

ALLOWING FOR TAX ON YOUR INVESTMENTS
The gross return generated by an investment may be subject to withholding tax, deducted directly by the bank, or to another form of tax such that the return you receive may be lower than the gross yield of your investment. The tax charge may differ according to the type of investment and depending on your personal situation (for example, your country of residence). Investors are strongly advised to make investment decisions that take the taxation of the investments into account.

## (*)MAIN RISKS INHERENT IN FINANCIAL INSTRUMENTS

* These risks are inherent in any type of financial product.

I. FOREIGN EXCHANGE RISK
The foreign exchange risk is the same for all financial assets (whether money market instruments, bonds, shares or derivatives). Investors buying a security denominated in a currency other than that of their national economy (reference currency) are exposed to an exchange risk, which is a risk of the foreign currency depreciating against their reference currency.

II. INTEREST RATE RISK AND REINVESTMENT RISK
Interest rates at different lengths of time (1-year interest rates, X-year interest rates, etc.) constantly vary, directly affecting the price of bonds and debentures.

When interest rates rise, the theoretic price of a bond that has already been issued falls, which will result in a loss for its owner.

On the contrary, a fall in interest rates will cause a rise in the prices of bonds, i.e. a profit for their owners.

This variation is called interest rate risk (also called price risk). Interest rate risk only is only damaging or beneficial when the owner of the bond has to dispose of it before its maturity.

Interestingly, short-term issues, which are unaffected by interest rate risk, are instead affected by what is known as reinvestment risk. This type of risk consists of the amounts invested in bonds that have a fairly short life span. They must be reinvested every so often at presumably different interest rates, which may be lower than the rate at which the investment was initially made depending on market conditions.

III. LIQUIDITY RISK
It refers to the investor's ability to sell his or her investment as quickly as possible without having to accept a significant reduction in its price. As a general rule, the greater the liquidity of a bond or asset, the lower its yield will be, provided that the other variables remain constant.

On the other hand, an issue will be more liquid the larger it is, as being larger will enable it to be distributed among more investors, which always facilitates the liquidity of the issue. A measure of the liquidity of the fixed income markets is given by the difference between the buyer/seller prices from the brokers, agencies and securities companies (brokers and dealers).

IV. CREDIT RISK OR INSOLVENCY
Credit risk or insolvency is the risk that the issuer will not pay the interest or principal that it had undertaken in the issue control in the volume and period anticipated. This risk affects the

interest rate on bonds; in fact the greater the risk, the greater the interest required by the investors.

V. MARKET RISK OR PRICE RISK
This is the potential loss of value for the financial assets due to adverse movements in the factors that determine their price, also known as risk factors, e.g. interest rates or exchange rates. Market risk is the main risk for liquid and organised markets such as the equity currency market or raw materials market.

VI. SPECIFIC RISKS RELATED TO FINANCING AN INVESTMENT IN FINANCIAL ASSETS ON A CREDIT
The purchase of financial instruments on credit generates a number of additional risks. Supplementary guarantees may be demanded in the event of the credit being exceeded due to a decline in the price of the pledged assets. If the investor is unable to repay these guarantees, the bank may be obligated to sell the deposited securities at an inopportune time for the customer.

VII. SPECIFIC RISKS RELATED TO INVESTING IN DERIVATIVE PRODUCTS

Warrants and options react with a leverage effect on the price variations of the underlying asset. In the case of buying a warrant or an option, the instrument loses all value if, upon maturity of the "call" (i.e. of the buy option), the price of the underlying asset is below the strike price expected by the contract, or if, upon majority of the "put" (i.e. of the sell option), it is higher.
In the case of selling derivatives or transactions in futures that are not covered by underlying assets, the risks of losses are, a prior, unlimited.

## MiFID CLASSIFICATION OF FINANCIAL INSTRUMENTS

Not all products have the same complexity or the same risk, therefore three types of products are distinguished:

Non-MiFID products
The following products are not affected by these regulations:

Current accounts
Demand deposit passbook accounts
Time deposits
Pension plans
Savings insurance (unit linked, etc.)

MiFID products
Which, in turn, are differentiated between non-complex and complex:

Non-complex products

Equity/shares quoted on organised markets
Fixed income traded on organised markets
Fixed income not traded on organised markets whose issuer at the time of purchase is "Investment Grade- High credit quality", i.e. it has a rating equal to or above BBB (nomenclature according to S&P).
Traditional investment funds not included in the list of complex products.
Funds of funds. They themselves are not considered complex but they may be depending on the underlying fund.

Complex products

Fixed income not traded on organised markets whose issuer at the time of purchase is "No Investment Grade", i.e. has a rating lower than BBB (nomenclature according to S&P).

Subordinated debt/perpetual subordinated debt
Convertible bonds
Preferred shares
Risk-capital participations
Structured products without capital guarantee
Capital guaranteed structured products
Non-traditional funds:
Private equity
Real estate funds
Hedge funds (alternative funds)
Gold funds or funds of other precious metals
Commodity funds (sugar, cocoa, oil, etc.)
Funds of funds with underlying complex fund
Exchange hedge funds
Warrants, any type of options or futures, caps and floors
Credit default swaps/credit notes (CDS/CDO)
Atypical financial contracts

## MAIN FINANCIAL INSTRUMENTS. CHARACTERISTICS AND RISKS

### I) MONEY MARKET INSTRUMENTS

The money market is an informal market on which financial institutions such as central banks, retail banks, insurance companies, fund managers and other major companies place their short-term liquid assets and procure short-term financing (liquidity management). Short term is understood as less than one year. The principal rates applicable on this market are EONIA, EURIBOR and LIBOR.

Due to the fact that borrowers on money markets are usually professional intermediaries, the securities issued against the borrowings usually carry a low risk, but also offer low returns compared with other types of financial assets, such as equity products. These securities are ideal for investors who have a strong aversion to risk.

**Types of products**

a) Treasury bonds
A treasury bond is a short- or medium-term security that is issued by the Treasury of a sovereign country and represents borrowing by the government.

Types of bonds:

- Ordinary: interest rate assigned at the time of issue.

Progressive: gradual interest rate where the holder of the securities regularly has the option to request reimbursement.

- Growth: at each coupon payment date, the bondholder can opt for capitalisation or cash payment of the interest.

- Capitalisation: The interest must always be capitalised.

b) Commercial paper
A commercial paper is a debt security issued by a company. It is traded by mutual agreement between economic agents.

c) Deposit certificates
A deposit certificate is an income-bearing security issued by a bank that provides a periodic interest payment; it rarely has a maturity of more than five years and cannot usually be redeemed before maturity.

d) Foreign exchange spot trade

A “spot” foreign exchange transaction is an agreement between two parties to exchange a quantity of one currency against a quantity of another currency for immediate delivery in cash, at a rate agreed when the deal is signed. It can only be used for currencies that are currently traded on the foreign exchange markets, such as EUR/USD.

e) Forward foreign exchange

A forward foreign exchange transaction is an agreement between two parties to exchange a quantity of one currency against a quantity of another currency at a later date, at a rate agreed when the deal is signed.

The exchange takes places at a future date and each of the parties agrees, on the maturity date of the contract, respectively to deliver the quantity of the currency sold and to take delivery of the quantity of the currency purchased. In general, a forward foreign exchange transaction can only be used for currencies that are currently traded on foreign exchange markets.
A forward foreign exchange transaction may be conducted:

- to hedge a foreign exchange risk;
- for speculative purposes. In the latter case, the investor has to:

- return (buy back or sell back) the position at the latest two days before the due date for the future transaction and realise a profit or a loss;
- renew the position for a new term. In this case, it is a “swap” for a forward foreign exchange transaction.

II) BONDS

A bond is a debt security certifying that its owner, called a bondholder, has granted a loan to the issuer and holds a credit right against the issuer. This means a right to receive interest, called the coupon, and the right to repayment of the capital loaned at a date and on terms that are predetermined. A bond represents a portion of debt of a sovereign government, a regional authority, a supranational institution or a private company.

The coupon, representing remuneration for the borrowed capital in the form of interest payments, may be fixed or variable. At the end of each predefined term, the borrower pays the investor the coupon, which represents the par value of the bonds multiplied by the agreed interest rate. At the final maturity date, the borrower repays the capital at the redemption price. In the event of the issuer’s default (e.g. from insolvency or bankruptcy), the bondholder bears the risk of non-repayment of the capital. In general, the risk inherent in a bond is lower than that incurred when investing in shares.

The price of a bond may be higher than, equal to or less than its nominal price (type of issue over par, at par or below par).

The main classes of bonds are:

- Fixed-rate bonds: the interest rate (annual or sometimes six-monthly) remains unchanged through to the loan’s maturity.

- Adjustable-rate bonds: the interest rate may be revised, but a minimum rate is normally specified.

- Floating/variable-rate bonds: the interest rate varies, generally quarterly, through to maturity, based on a predetermined money-market rate (e.g. the 3-month Euribor or Libor). It is often a rate linked to inflation or to an index.

- Reverse convertible bonds: this is a bond that has a coupon higher than that of a classic bond, but whose capital repayment depends on the price of a reference share in relation to a predefined price. If, on maturity of the reverse convertible bond, the share price is less than the predefined price, the investor is repaid in reference shares. In the alternative case, the investor is paid back the initial capital. In all cases, the investor receives a coupon.

- Convertible bonds: this is a classic bond that may be converted (if the holder so wishes and depending on the methods defined in the issue contract) into new shares from the issuing company.

- Zero coupon bonds: bonds with no coupons, which do not offer any interest payment during their lifetime. In principle, this type of bond is issued at a low issue price and gives the right, at final maturity, to a high redemption premium, due to the capitalisation of the interest.

## III SHARES

A share is a security that represents a portion of the equity capital of a company (whether or not it is listed on the stock market). This title of ownership is delivered to the shareholder as evidence of his or her rights and may be in registered or bearer form. The share contains monetary rights and participation rights, as it gives the holder the right to participate in general shareholders' meetings and to vote in them, as well as the right to receive, in the form of dividends, a share in the profits realised by the company. In return, the shareholder is fully exposed to the risks of the company (via the capital contributed).

Types of shares

a) Bearer/registered shares

The share is in registered form when the owner is recorded in the company's share register; this entails certain formalities when the share is transferred. The owner of a bearer share is not recorded in such a register and a share may be transferred by mutual agreement ("over the counter").

b) Ordinary or preferred shares

Some shares may, in accordance with the articles of association of the issuing company, carry rights related to the amount of the dividend or to compensate for a loss of voting rights at general shareholders' meetings, for example.

c) Representative certificates

As the name implies, a certificate representing shares corresponds to a security representing one or more shares from an issuing company. They are exchange traded in the form of Fiduciary Depositary Receipt (FDR), American Depositary Receipt (ADR) or Global Depositary Receipt (GDR).

The principal risk related to shares is that of price. The shares react to any improvement or deterioration of the company's fundamentals (balance sheet and income statement, especially the sales and profits). The markets anticipate these changes in fundamentals, so when the news is announced (e.g. profit warning), they make the reaction of the share prices often seems to be rational.

## IV.- UNDERTAKINGS FOR COLLECTIVE INVESTMENT (UCI)

A UCI or investment fund is an investment vehicle with the exclusive aim of raising capital from the public and, in the majority of cases, investing it in transferable securities or real estate, such as shares and bonds or other financial assets, according to the principle of risk diversification.

The Andorran legislator recognises two basic forms of UCI:
• Contractual UCI (mutual investment funds called "Fonds Commun de Placement")
• Incorporated UCI (investment companies)

a) Investment Funds (IF)

Contractual UCI are defined as a jointly-owned mass of transferable securities composed and managed according to the principle of diversification of risks on behalf of joint owners, who are only liable to the extent of their investment. FCP have no legal personality of their own and are managed by a management company, according to management rules that are defined in their

prospectus. The proper application of the management rules is monitored by the custodian bank. The investor waives the exercise of ownership rights such as the voting right.

The Andorran legislator (INAF) allows IFs to divide their assets in several different compartments according to their investment policy, the currency in which the investment is made or the type of investors. The transfer from one compartment to another, within the same IF is generally carried out without charges.

Types of funds according to their investment policy:

i) Money market UCI (a UCI investing in money market instruments in the currency of the fund)

ii) Bond UCI (a UCI investing in single or multi-currency bonds)

iii) Equity UCI (a UCI investing in shares, which may be based on a geographic or sector strategy)

iv) Mixed UCI (a UCI investing in bonds and equities)

v) Fund of funds UCI (a UCI investing in other UCI);

vi) Guaranteed-capital or guaranteed-return UCI (a product structured on the UCI format and not an EMTN-type bond; a UCI offering certain guarantees)

vii) Real estate UCI (a UCI investing in real estate)

viii) Hedge fund type UCI (a UCI seeking absolute performance, which is not correlated to stock market trends)

ix) Institutional UCI or SIF (a UCI reserving its shares for one or more institutional investors, defined in the company's articles of association);

x) SICAR (venture capital or private equity company investing in companies not listed on the stock market).

Access to these last three types of fund is primarily for informed investors with a significant financial capacity.

b) Investment Companies
Statutory UCIs are investment companies. Unlike IFs, these investment companies all have a different legal personality than that of the investors. According to applicable law, these companies are administrated by their boards of directors, or by a management company approved by the Andorran National Institute of Finance (INAF).

## V.- OPTIONS AND WARRANTS

Warrants
A warrant is a form of option traded on the stock market, with a form of transferable security that gives the right (and not the obligation) to buy or sell a financial asset, at a price fixed in advance, for a specific period of time. Each warrant must be related to a specific asset, which can be a share, an index (stock market or other), a commodity, etc.
Warrants are financial products with a leverage effect, which means they generate exposure to variations in the price of the underlying asset, as a multiple of the initial investment. They are therefore particularly suited to speculating on the price of the underlying asset going up or down, but at maturity the investor may face a total loss of the initial investment. They can also be used to hedge a portfolio against an unfavourable movement. For example, a "put warrant" is regularly used as a hedging instrument to protect a portfolio against market fluctuations.

Options

The purchase of an option gives the right, but not the obligation, to buy (call) or sell (put) an underlying asset at a future date, at a price determined in advance, called the exercise price or strike price. Note: In all circumstances, the seller of an option must accept the buyer's decision.
The buyer of a CALL gains upon maturity of the contract if the price of the underlying asset is higher than the strike price, with the opposite being true for the buyer of a PUT.
A combination of options can give rise to very complex and consequently high-risk strategies, especially when selling options. A combination can be used to hedge a portfolio by limiting the risk of loss only to purchase price paid the option.

VI.- FUTURES CONTRACTS
Futures, like options, are types of derivatives.
These are forward contracts in which the two parties firmly agree (unlike options) to buy or sell a given quantity of an underlying asset at a fixed price, on a fixed date in the future (maturity date).

One feature of futures contracts is their high level of standardisation (amount of the contract, fixed maturity date, no quotation (tick size), exact definition of the eligible underlying asset, etc.).

If, on the maturity date, the price of the contract's underlying asset is higher than the specified price, the contract buyer realises a profit. In the opposite case, he or she realises a loss. The opposite reasoning applies to the contract seller.

Like derivatives, futures have a leverage effect to the extent
that the capital invested represents less than the price of the corresponding asset, which enables a multiplier effect on the asset's rate of return, at the same time carrying a much higher risk on the capital invested.

Futures contracts usually relate to commodities (oil, sugar, etc.), currencies, interest rates (money market rates and bond yields) and stock market indices.

VII.- STRUCTURED PRODUCTS
These are financial instruments that are composed of several financial instruments, which therefore possess the same risk/return characteristics as the sum of those financial instruments.
In general, a structured product is composed of two key elements:

- an element of protection for the capital - is often a bondholder product that at the same time defines the product's time horizon)
- and an element of risk that enables achieving high performance. (For example: a share, an index, raw materials, etc.).

The potential combinations of protection and risk instruments make the structured product market presently very extensive, and a knowledge of and familiarity with the subject is needed in order to understand it.

VIII.- HEDGE FUNDS
Hedge funds are unlisted investment funds for a speculative purpose. Contrary to their name which implies hedging and cover, they have a speculative intent. They are funds that seek high profitability by the intensive use of derivatives, particularly options. They use the leverage effect and offer additional diversification to "classic" portfolios since their results in theory are not related to the results of the stock and bond markets. They are often unfeasible and aimed at risky investors.

The different strategies are characterised by very variable risk/return ratios. Some of these strategies include:

• Convertible arbitrage: invests in convertible bonds that are mispriced on the market. Typically, this strategy consists of buying the convertible bond at the same time as short-selling the underlying share.

• Long-short equity: consists of taking long (buy) and short (sell) positions on selected equities in the same sector or the same geographic region, with the net resulting position showing a long bias, short bias or market neutral. This requires good control of the stock-picking tools.

High frequency statistical arbitrage: consists of taking positions based on a behavioural gap versus historic performance, i.e. banking on a return to average. This may consist of exploiting an increase or decrease in the correlation between stocks, sectors or markets, when this seems unjustified from a fundamental point of view. This behaviour is auto-predictive, i.e. its adoption makes for stable observations: for example, taking advantage of a fall in the correlation between BNP and GLE by buying one and selling the other.

Quantitative trading: consists of taking positions based on predictions made by a quantitative model, i.e. an analysis of prices and information in order to identify buy or sell signals. Strategy only effective on futures (very low brokerage fees and sufficient liquidity).

Global macro: seeks to make a profit from changes in the global economy, in particular changes in interest rates due to government economic
policies. It uses instruments that reflect the global economic situation: currencies, indices, yield curves, commodities.

Fixed income arbitrage: seeks to make a profit from movements and deformities in the yield curve. It uses vehicles such as Spanish government securities, futures and interest rate swaps.

Event driven: the manager looks for the opportunities generated by events that take place in the life of companies: affiliation, mergers, or from difficulties (distressed securities)

Merger arbitrage: the opportunity for arbitrage in takeover situations results from the difference between the price announced by the purchaser and the price at which the target is trading on the market.

Emerging markets: invests in developing markets. A very risky strategy as hedging instruments are not always available for this type of market. In addition, the manager is faced with a liquidity risk as emerging markets often lack liquidity